

Warsaw, 31 March 2010

## INFORMATION FROM THE MEETING OF THE MONETARY POLICY COUNCIL

held on 30-31 March 2010

The Council decided to keep the NBP interest rates unchanged, i.e.

- reference rate at 3.50% on an annual basis;
- lombard rate at 5.00% on an annual basis;
- deposit rate at 2.00% on an annual basis;
- rediscount rate at 3.75% on an annual basis;
- discount rate at 4.00% on an annual basis.

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Growth in economic activity in the United States and a slow improvement in economic conditions in the euro area continue. However, the labour market situation in the developed economies remains unfavourable, which is in line with expectations. At the same time, the largest emerging economies see noticeable recovery in economic activity accompanied by a rise in inflation. The global economic recovery has so far been supported by strongly expansionary macroeconomic policies based on both conventional and non-standard instruments. However, negative consequences of those policies, mostly those related to public debt accumulation, are becoming increasingly visible.

Over the recent period, currencies of many emerging economies, including the zloty, have appreciated. Nonetheless, uncertainty in the international financial markets remains elevated, mostly driven by the fiscal crisis in Greece. The measures undertaken by international institutions seem to restrain this uncertainty only to a moderate degree.

GUS data on GDP have confirmed earlier estimates according to which 2009 Q4 saw a recovery in economic activity. Monthly data on the situation of the Polish economy at the beginning of 2010 point to a continued improvement in some sectors, primarily in manufacturing. At the same time, however, the most recent data on retail sales as well as construction and assembly output may signal slightly weaker than expected economic activity in Poland in 2010 Q1. It cannot be ruled out, though, that this is a temporary phenomenon related to unfavourable weather conditions. The small scale of decrease in employment in the enterprise sector may signal a gradual deceleration of the unfavourable labour market tendencies, despite further growth in unemployment rate largely driven by increasing labour force participation. The growth in loans to the non-financial sector remains low. At the same time, the improvement in the financial results of enterprises for 2009 may reduce their demand for bank loans.

In line with expectations, in February 2010 annual CPI inflation decreased markedly (to 2.9% as compared with the revised downwards 3.5% in January 2010), moving closer to the inflation target of 2.5%. The fall in the annual inflation rate was primarily driven by lower annual rates of fuel and energy carriers prices, largely due to a statistical base effect. Core inflation also declined.

# NBP

In line with available forecasts, in the months to come the annual CPI will be lowered by negative base effects connected with the surge in prices of excise goods and food prices in 2009. Other factors conducive to lower inflation include: low current demand pressure, the hitherto considerable zloty appreciation and moderate growth of labour costs. In turn, inflation decline in 2010 may be curbed by rises in commodity prices in the world markets and in administered prices, including gas prices and fees subject to decisions of local government units.

In the Council's assessment the probabilities of inflation running below or above the inflation target in the medium term are balanced. In the Council's view, however, the impact of the hitherto pursued expansionary macroeconomic policies abroad and their prospective reversal are an important risk factor which may affect this assessment.

An important factor affecting monetary policy is the situation of the public finance sector. Introducing measures aimed at permanently reducing the deficit of the general government sector and at curbing the increase of the public debt will support macroeconomic stability and allow to meet the criteria for euro adoption.

The Council maintains the opinion that Poland should join the Exchange Rate Mechanism II and the euro area at the earliest possible date, after meeting the necessary legal, economic and organisational conditions.

The Council has adopted a resolution changing the resolution on creating and unwinding provisions against the FX risk of the zloty against foreign currencies at the National Bank of Poland.